

**REPORT OF THE AUDIT OF THE  
LEE COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 28, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LEE COUNTY**  
**SHERIFF'S SETTLEMENT - 2004 TAXES**

**May 28, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Lee County Sheriff as of May 28, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,615,777 for the districts for 2004 taxes, retaining commissions of \$67,859 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,541,407 to the districts for 2004 Taxes. Taxes of \$291 are due to the districts from the Sheriff and refunds of \$890 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



## CONTENTS

PAGE

|  |    |
|--|----|
| INDEPENDENT AUDITOR'S REPORT .....   | 1  |
| SHERIFF'S SETTLEMENT - 2004 TAXES .....  | 3  |
| NOTES TO FINANCIAL STATEMENTS .....  | 5  |
| COMMENT AND RECOMMENDATION .....   | 9  |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON<br>COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT<br>PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS..... | 13 |





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable L.C. Reese, Lee County Judge/Executive  
Honorable Harvey Pelfrey, Lee County Sheriff  
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2004 Taxes as of May 28, 2005. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lee County Sheriff's taxes charged, credited, and paid as of May 28, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable L.C. Reese, Lee County Judge/Executive  
Honorable Harvey Pelfrey, Lee County Sheriff  
Members of the Lee County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 16, 2005



LEE COUNTY  
HARVEY PELFREY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

May 28, 2005

| <u>Charges</u>                        | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|---------------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate                           | \$ 366,268          | \$ 200,019                          | \$ 415,623          | \$ 170,146         |
| Tangible Personal Property            | 51,906              | 17,828                              | 35,496              | 31,199             |
| Intangible Personal Property          |                     |                                     |                     | 22,981             |
| Fire Protection                       | 2,662               |                                     |                     |                    |
| Increases Through Exonerations        | 36                  | 19                                  | 40                  | 17                 |
| Franchise Corporation                 | 127,743             | 49,145                              | 99,555              |                    |
| Additional Billings                   | 663                 | 390                                 | 858                 | 424                |
| Oil and Gas Property Taxes            | 22,030              | 12,030                              | 24,998              | 10,233             |
| Limestone, Sand, and Mineral Reserves | 30                  | 16                                  | 34                  | 14                 |
| Bank Franchises                       | 17,299              |                                     |                     |                    |
| Penalties                             | 4,939               | 2,483                               | 5,542               | 2,305              |
| Adjusted to Sheriff's Receipt         | 137                 | 208                                 | 643                 | 77                 |
| Gross Chargeable to Sheriff           | <u>\$ 593,713</u>   | <u>\$ 282,138</u>                   | <u>\$ 582,789</u>   | <u>\$ 237,396</u>  |
| <u>Credits</u>                        |                     |                                     |                     |                    |
| Exonerations                          | \$ 3,856            | \$ 2,106                            | \$ 4,375            | \$ 1,791           |
| Discounts                             | 6,163               | 3,069                               | 6,287               | 3,113              |
| Delinquents:                          |                     |                                     |                     |                    |
| Real Estate                           | 14,860              | 8,073                               | 16,776              | 6,867              |
| Tangible Personal Property            | 919                 | 316                                 | 629                 | 802                |
| Additional Bills Exonerations         | 72                  | 44                                  | 100                 | 41                 |
| Total Credits                         | <u>\$ 25,870</u>    | <u>\$ 13,608</u>                    | <u>\$ 28,167</u>    | <u>\$ 12,614</u>   |
| Taxes Collected                       | \$ 567,843          | \$ 268,530                          | \$ 554,622          | \$ 224,782         |
| Less: Commissions *                   | <u>24,421</u>       | <u>11,412</u>                       | <u>22,185</u>       | <u>9,841</u>       |
| Taxes Due                             | \$ 543,422          | \$ 257,118                          | \$ 532,437          | \$ 214,941         |
| Taxes Paid                            | 540,857             | 257,005                             | 529,957             | 213,588            |
| Refunds (Current and Prior Year)      | <u>2,565</u>        | <u>1,003</u>                        | <u>2,206</u>        | <u>1,336</u>       |
| Due Districts or (Refund Due Sheriff) |                     | **                                  |                     |                    |
| as of Completion of Fieldwork         | <u>\$ 0</u>         | <u>\$ (890)</u>                     | <u>\$ 274</u>       | <u>\$ 17</u>       |

\* and \*\* see page 4

The accompanying notes are an integral part of this financial statement.

LEE COUNTY  
HARVEY PELFREY, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES  
May 28, 2005  
(Continued)

\* Commissions:

|          |    |           |
|----------|----|-----------|
| 10% on   | \$ | 10,000    |
| 4.25% on | \$ | 1,051,155 |
| 4% on    | \$ | 554,622   |

\*\* Special Taxing Districts:

|                  |    |       |
|------------------|----|-------|
| Library District | \$ | (890) |
|------------------|----|-------|

|                      |    |       |
|----------------------|----|-------|
| (Refund Due Sheriff) | \$ | (890) |
|----------------------|----|-------|

LEE COUNTY  
NOTES TO FINANCIAL STATEMENT

May 28, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 28 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

LEE COUNTY  
NOTES TO FINANCIAL STATEMENT  
MAY 28, 2005  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 14, 2005, through May 28, 2005.

Note 4. Interest Income

The Lee County Sheriff earned \$1,619 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected \$9,059 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lee County Sheriff collected \$620 of advertising costs and \$1,539 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION



LEE COUNTY  
HARVEY PELFREY, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of May 28, 2005

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Daily deposits be recounted and deposited by the Sheriff
- Reconciliation of reports to source documents by the Sheriff
- All disbursement checks to be signed by two people, one being the Sheriff
- The Sheriff examine all disbursement checks prepared by an employee for proper documentation
- The Sheriff mail or deliver tax payments to districts
- The Sheriff or someone independent of the Sheriff's office prepare the bank reconciliation

*Sheriff's Response:*

OK

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

THIS PAGE LEFT BLANK INTENTIONALLY



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable L.C. Reese, Lee County Judge/Executive  
Honorable Harvey Pelfrey, Lee County Sheriff  
Members of the Lee County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 2004 Taxes as of May 28, 2005, and have issued our report thereon dated December 16, 2005. The Sheriff's Settlement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement -2004 Taxes as of May 28, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 16, 2005

